

Minutes for March 14, 1957

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>LM</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Vardaman	x <u>[Signature]</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>LS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 14, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Sloan, Director, Division of Examinations
 Mr. Masters, Associate Director, Division of Examinations

The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to American State Bank, Lubbock, Texas, granting the bank permission to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Dallas.)	1
Letter to California Bank, Los Angeles, California, approving the establishment of a branch in Newport Beach. (For transmittal through the Federal Reserve Bank of San Francisco.)	2
Telegram to the Federal Reserve Bank of Dallas approving an investment in bank premises by Pan American State Bank, Brownsville, Texas.	3
Memorandum from Governor Shepardson recommending a specific travel authorization for Mr. Young, Director, Division of Research and Statistics, in connection with a forthcoming trip to Europe.	4

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With regard to the foregoing memorandum from Governor Shepardson, there was a discussion, at the instance of Governor Robertson, concerning the practice of granting representation allowances to members of the Board's staff traveling abroad. Governor Robertson made it clear that his questions were raised solely in the interest of obtaining information.

Governor Shepardson stated that he had checked into the matter through the Secretary's Office and the Controller's Office, that an allowance of this kind was intended to cover typical entertainment expenses incurred incident to official duties, and that such an allowance had been approved for several members of the Board's staff over the past decade.

Mr. Carpenter supplemented Governor Shepardson's comments by referring to specific cases where representation allowances had been approved. He pointed out that, as in the case of Mr. Young, several of the trips involved attendance at international conferences.

In a further comment, Governor Shepardson said that two alternative procedures were available to the Board. Instead of providing a representation allowance, the Board might authorize travel on an actual expense basis pursuant to which entertainment expense incident to official duties could be claimed along with other expenses on the travel voucher. He also brought out that in the case of a representation allowance the Board's action authorizes a maximum expenditure, and that a report must be made later on the extent to which the allowance was actually used.

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Proposed merger involving Continental State Bank, Boise, Idaho.

There had been circulated to the members of the Board memoranda from the Division of Examinations recommending (1) that the Board grant its consent to the merger of The First National Bank of Caldwell, Caldwell, Idaho, and Bank of Eastern Idaho, Idaho Falls, Idaho, with and into Continental State Bank, Boise, Idaho, under the title of Bank of Idaho, Boise, Idaho, and approve the establishment by Bank of Idaho of branches in cities where the first two banks have offices; and (2) that limited voting permits be issued to Transamerica Corporation, San Francisco, California, to vote its stock of Continental State Bank and The First National Bank of Caldwell in order to accomplish the merger and for certain other specified purposes. These recommendations were in accord with the recommendations of the Federal Reserve Bank of San Francisco.

Following a discussion, unanimous approval was given to the letter to Continental State Bank attached to these minutes as Item No. 5, for transmittal through the Federal Reserve Bank of San Francisco, and to the telegrams to the Federal Reserve Agent at San Francisco attached to these minutes as Items 6 and 7.

Practices and policies relating to trust power applications.

On October 9, 1956, the Board gave consideration to a memorandum from the Division of Examinations dated August 24, 1956, relating to policy questions involved in granting trust powers to small national banks. The memorandum was prepared in connection with initial consideration of applications for full fiduciary powers submitted by First National

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Bank of Edna, Edna, Texas, and The Liberty National Bank of Dickinson, Dickinson, North Dakota, on both of which the Reserve Bank concerned and the Division of Examinations recommended unfavorably. As a result of discussion by the Board, action on the two applications was deferred and the Division of Examinations was requested to prepare a letter to all Federal Reserve Banks requesting a review of Reserve Bank policies and procedures relating to the processing of trust power applications, particularly applications submitted by small banks.

A draft of such a letter had been circulated to the members of the Board prior to this meeting. In addition, the two specific applications were resubmitted, the recommendation of the Division of Examinations for disapproval in the case of the First National Bank of Edna being continued and the recommendation in the Dickinson case now being favorable. Also submitted was an application from the Bank of Belle Fourche, South Dakota, for permission to exercise statutory trust powers, on which favorable action was recommended. The Dickinson and Belle Fourche applications were related because of control of the two banks by the same interests.

Mr. Masters recalled that in previous discussions by the Board of applications for trust powers the Division of Examinations had stated that in many instances the facts and arguments presented by the applicant and the Reserve Bank did not make a clear-cut case, the situation being of a borderline nature. He also recalled that Board policy in dealing with trust power applications over a long period had tended to be liberal. The Dickinson case, he said, was one of those of a borderline nature; and he then cited the factors which contributed to the original unfavorable recommendations by the Minneapolis Reserve Bank and the Division

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of Examinations. He went on to say that since that time additional information had been received which caused the Division to reverse its recommendation. Indication had been obtained that some demand for trust services was developing in the area, and a competing bank had begun recently to engage in the active development of trust accounts. At Belle Fourche, where a State member bank was concerned, the circumstances were almost identical to those in the Dickinson case. For this reason, and since both banks are owned by the same interests, it would seem inconsistent to take favorable action in the one case and deny the other application.

Turning to the Edna application, Mr. Masters outlined the unfavorable factors which formed the basis for the original recommendation. There appeared to be evidence, he said, that the bank was seeking trust powers as a "loss leader" with the objective of building up deposits.

As to the proposed general letter to the Federal Reserve Banks, Mr. Masters said the Division of Examinations had long felt that applicant national and State banks should have a clear understanding of the obligations and responsibilities they would assume if they went into the trust business, that there should be a demonstration of willingness to approach such responsibilities in a professional manner, that the bank should be staffed to provide creditable servicing of trust accounts, and that there should appear to be at least a reasonable chance that trust operations would not result in a drain on the bank's profits. After expressing the hope that the proposed letter would work

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toward that goal, he pointed out that it would request the Reserve Bank to make a field investigation in every case, at which time the examiner would be expected to discuss the responsibilities of the trust business and the facilities that the bank should have if it wanted to enter the trust field. The Reserve Banks would also be asked to show in each case that the applicant bank was staffed to handle competently such trust business as it might reasonably be expected to obtain.

With reference to the Edna application, it was noted that within a 39-mile radius of that city there were three banks exercising trust powers, with an aggregate of \$2,500,000 in trust assets.

Question was raised by members of the Board whether this did not demonstrate the availability of some potential trust business. It was also asked whether sufficient distinctions could be made between this case and the Dakota applications to justify unfavorable action in the one case and favorable action in the other two cases.

Mr. Masters said that, while the competitive aspects of an application could not be ignored, he did not think that the desire of the applicant bank to compete should be the prime reason for the Board to grant an application for trust powers. There should also be some demonstration of need for trust services in the area and of the ability of the applicant bank to do a creditable job of administering trust functions, and the Edna bank's application seemed to

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offer little basis for approval except from the standpoint of the competitive aspect. With regard to the trust operations of other banks in the area, Mr. Masters pointed out that in general the volume of trust business at those banks was not large.

After Governor Mills had made the point that the granting of trust powers did not mean necessarily that they would be used, while a denial constituted a decision of finality, Governor Vardaman stated that on the basis of the facts as presented he would doubt the wisdom of acting unfavorably on the Edna application. In view of the policy followed by the Board over the years, and until more definitive policy lines were established - which he thought might require new legislation - he felt that the Board might be charged with inconsistency if an application such as presented by the Edna bank was denied.

Chairman Martin referred to the unfavorable recommendation of the Federal Reserve Bank of Dallas and stated that unless the Board was prepared to go into individual cases in considerable detail - to a greater extent than the Board's time and facilities would permit - it would seem best to go along with the Reserve Bank of the District as a general policy. That, he said, represented his thinking after reviewing the application of the First National Bank of Edna.

In a further discussion, Mr. Masters reviewed the reasons given by the Dallas Bank for recommending disapproval of the application. He stated that if these reasons were sound and the Board should nevertheless grant the application, it might be difficult to turn down an application submitted by any small bank.

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Governor Vardaman expressed the opinion that the strongest reason given for denying the application was the question of the bank's ability to administer trust functions satisfactorily, since he felt there was some indication of a need for trust services in the area. He also concurred in Chairman Martin's view that due weight should be given to the recommendation of the Reserve Bank concerned. In the circumstances, he suggested the possibility of referring the matter back to the Dallas Bank for review in the light of the two Dakota cases.

Governor Robertson agreed with the suggested procedure but questioned the advisability of referring to the Dakota cases, particularly since the recommendation of the Minneapolis Bank on one of them was unfavorable. He said that he would prefer asking the Dallas Bank to make a field investigation, so that before the Board took action it might be more certain that competent trust administration could not be provided by the Edna bank. Reference might also be made, he said, to the fact that the Board had approved trust power applications in other parts of the country in circumstances somewhat similar to those surrounding the Edna application. In general, he felt that there were some distinctions between the Edna and the Dakota applications, but that they were small and the proposed actions therefore might seem inconsistent. He felt that the suggested review by the Dallas Bank would permit the Board to make a more complete analysis before it took action on the Edna case.

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The other members of the Board having expressed agreement with the approach suggested by Governor Robertson, it was agreed unanimously to refer the matter back to the Dallas Bank on that basis.

With reference to the two applications in the Minneapolis District, question was raised whether the Board should approve them in the face of the unfavorable recommendation of the Reserve Bank in the Dickinson case. In this connection, mention was made of the Board's general policy not to take action contrary to the recommendation of a Reserve Bank in bank supervisory matters without giving the Bank an opportunity to present such additional views as it may desire.

Accordingly, Governor Robertson suggested that the applications of The Liberty National Bank of Dickinson and Bank of Belle Fourche be approved subject to a check by the Division of Examinations with the Federal Reserve Bank of Minneapolis to ascertain whether the Reserve Bank wished to submit any additional views regarding the Dickinson application. This suggestion contemplated that if the Reserve Bank wished to present additional information, both cases would be brought back to the Board for further consideration, but that otherwise the letters of approval with respect to both the Dickinson and the Belle Fourche applications would be sent.

There was unanimous agreement with the procedure suggested by Governor Robertson.

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Secretary's Note: The Division of Examinations having ascertained that the Federal Reserve Bank of Minneapolis did not wish to offer additional views concerning the Dickinson application, there were sent today, pursuant to the Board's action, the letters to Bank of Belle Fourche, Belle Fourche, South Dakota, and The Liberty National Bank of Dickinson, Dickinson, North Dakota, attached to these minutes as Items 8 and 9, respectively. Each of these letters was sent to the Federal Reserve Bank of Minneapolis for transmittal to the member bank concerned and, with respect to the Dickinson application, the letter attached to these minutes as Item No. 10 was sent to the Minneapolis Reserve Bank.

The proposed letter to all Federal Reserve Banks with regard to procedures in processing applications for trust powers was approved unanimously. A copy of the letter is attached to these minutes as Item No. 11.

In response to a question by Governor Vardaman as to whether it would be desirable to refer the whole problem of policy regarding the exercise of trust powers to the Conference of Presidents of the Federal Reserve Banks, with a view to achieving a more uniform approach, Governor Robertson commented that if the Financial Institutions Act were passed, this function would be transferred from the Board to the Comptroller of the Currency. Therefore, he expressed doubt concerning the advisability of taking the action mentioned by Governor Vardaman at this time.

Application to organize a national bank at Deer Park, Texas.

The Secretary reported that the file on this subject had completed circulation to the members of the Board this morning and that the Comptroller

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of the Currency was anxious to have the Board's recommendation. The draft of letter would state that the Board recommended approval of the application provided the establishment of a State chartered bank proposed to be located in the same area was not approved.

In response to a question by Governor Shepardson, Governor Robertson said that although the Comptroller of the Currency would have no control over the decision on chartering the proposed State bank, the existing informal agreement among the bank supervisory agencies provides that the application filed first shall have precedence in a situation where not more than one banking office in a particular location is needed. In this instance, the need for two banking offices at Deer Park was not apparent. If the Comptroller agreed with that point of view, and if the State application had precedence, the Comptroller presumably would defer action on the national bank charter until after the decision of the State authorities had been made.

At the conclusion of the discussion, unanimous approval was given to the letter to the Comptroller of the Currency attached to these minutes as Item No. 12, with a copy to the Federal Reserve Bank of Dallas.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the

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Board recommendations contained in memoranda from appropriate individuals concerned with respect to the Board's staff, as follows:

Appointments, effective on the respective dates of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>
Doris J. Hodge, Clerk-Typist	Bank Operations	\$3,670
Linwood N. Tyndall, Assistant Federal Reserve Examiner	Examinations	4,350

Transfer

Rita D. Brinley, from the position of Clerk-Stenographer in the Division of Bank Operations to the position of Clerk-Stenographer in the Division of Research and Statistics, with no change in her basic salary at the rate of \$3,670 per annum, effective the date she assumes her new duties.

Acceptance of resignation

Joann J. Connor, Minutes Clerk in the Office of the Secretary, effective March 11, 1957.


Secretary

Item No. 1
3/14/57

March 14, 1957

Board of Directors,
American State Bank,
Lubbock, Texas.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the American State Bank to exercise the fiduciary powers now or hereafter authorized under the terms of its Articles of Association and the laws of the State of Texas.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 2

3/14/57

March 14, 1957

Board of Directors,
California Bank,
Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch at 3435 East Coast Highway, Newport Beach, California, by California Bank, Los Angeles, California, provided (a) the proposed merger with the Newport Harbor Bank is effected substantially in accordance with the agreement of merger dated February 11, 1957, and (b) the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 3
3/14/57

March 14, 1957

PONDROM - DALLAS

Board of Governors approves under the provisions of Section 24A of the Federal Reserve Act the direct and indirect investment not to exceed \$402,200 in bank premises (which includes \$192,200 invested in real estate) by Pan American State Bank, Brownsville, Texas. It is understood the member bank will continue to reduce this investment in amounts required by Texas statutes.

(Signed) Merritt Sherman

SHERMAN

Item No. 4
3/14/57

To: Board of Governors

March 8, 1957

From: Governor Shepardson

Subject: Travel by
Mr. Ralph A. Young

In accordance with the Board's previous decision that Mr. Young, Director of the Division of Research and Statistics, should confer with the appropriate officials at several European central banks and participate in the statistical conference in Stockholm this summer, I recommend the following specific travel authorization:

1. That Mr. Young be authorized to travel to Europe for a period of approximately 65 days, leaving Washington about the 15th of June and returning around the 20th of August. During this period Mr. Young would visit the Bank of England, Banque de France, Banca d'Italia, Bank deutscher Lander, the Bank for International Settlements, Banque Nationale de Belgique, and De Nederlandsche Bank. If time permits, he might also spend a few days at the Oesterrichische Bank and arrange to confer with representatives of The Twentieth Century Fund with regard to their current study of Europe's needs and resources.

2. He would attend the International Statistical Institute in Stockholm from August 8 to 15, inclusive, and if the program appears to be of sufficient interest to justify it, some time at the International Conference on Income and Wealth, to be held in Arnhem, Holland, August 18 to 24.

3. For all travel outside the continental U. S. a flat per diem of \$15 per day is recommended. This corresponds to the per diem established in connection with Mr. Riefler's travel last year. A representation allowance of \$500 is recommended to cover official entertainment outside the U. S.

4. Travel on the Continent by common carrier or automobile would be authorized with reimbursement for actual expense, including rental, for any portions performed by auto.

Item No. 5
3/14/57

March 14, 1957

Board of Directors,
Continental State Bank,
Boise, Idaho.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of The First National Bank of Caldwell, Caldwell, Idaho, and Bank of Eastern Idaho, Idaho Falls, Idaho, with and into Continental State Bank, Boise, Idaho, under the title of Bank of Idaho, Boise, Idaho, and approves the establishment by the latter bank of branches at:

802 Arthur Street, Caldwell, Idaho,
Wilder, Idaho, and
B Street and Capitol Avenue, Idaho Falls, Idaho,

provided (a) the merger is effected substantially in accordance with the terms of the agreement and plan of merger dated January 29, 1957, (b) the branches are established within six months from the date of this letter, and (c) formal approval of the State authorities continues in effect.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 6
3/14/57

March 14, 1957

BRAWNER - SAN FRANCISCO

KECEA

- A. Transamerica Corporation, San Francisco, California.
- B. Continental State Bank, Boise, Idaho.
- C. None.
- D. At any time prior to July 1, 1957, to act upon proposals to (1) amend the articles of incorporation of such bank to increase its authorized capital stock from 5,000 shares with a par value of \$100 each to 135,000 shares with a par value of \$10 each, and (2) effect mergers of The First National Bank of Caldwell, Caldwell, Idaho, and Bank of Eastern Idaho, Idaho Falls, Idaho, into Continental State Bank, Boise, Idaho.

(Signed) Merritt Sherman

SHERMAN

KECEA - The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

Item No. 7

3/14/57

March 14, 1957

BRAWNER - SAN FRANCISCO

KECEA

- A. Transamerica Corporation, San Francisco, California.
- B. The First National Bank of Caldwell, Caldwell, Idaho.
- C. None.
- D. At any time prior to July 1, 1957, to act upon a proposal to effect a merger of such bank into Continental State Bank, Boise, Idaho.

(Signed) Merritt Sherman

SHERMAN

KECEA - The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

Item No. 8
3/14/57

March 14, 1957

Board of Directors,
Bank of Belle Fourche,
Belle Fourche, South Dakota.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Bank of Belle Fourche to exercise the fiduciary powers now or hereafter authorized under the terms of its Articles of Incorporation and the laws of the State of South Dakota.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 9

3/14/57

March 14, 1957

Board of Directors,
The Liberty National Bank of Dickinson,
Dickinson, North Dakota.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of North Dakota, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Liberty National Bank of Dickinson is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 10
3/14/57

March 14, 1957

Mr. H. G. McConnell, Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. McConnell:

Reference is made to the application of The Liberty National Bank of Dickinson, Dickinson, North Dakota, for authority to exercise full trust powers forwarded initially with your letter of July 31, 1956, and accompanied by the recommendation of your bank that the application be denied.

As a consequence of your recommendation, it was suggested that the national bank be given an opportunity to withdraw its application prior to formal action by the Board. Your letter of August 30, however, reaffirmed the desire of the national bank that its application be processed and presented to the Board and furnished additional information in support thereof.

As you know, in acting upon applications of this kind, the Board gives special consideration to various facts and circumstances bearing upon the eligibility of the applicant to receive permission to exercise fiduciary powers. In reviewing the report of examination of applicant made as of May 7, 1956, it appeared that the bank was in good condition, its management was capable, capital was satisfactory, and earnings were good. The bank was accorded the highest composite rating, I-A-S over 1. A more recent examination, made as of November 30, 1956, disclosed the same favorable condition, although the examiner noted some reservations as to the availability of succession in management. However, applicant is one of a chain of five banks controlled by the H. W. Clarkson interests. The Clarkson family represents considerable wealth and presumably may be relied upon to provide capable management and satisfactory operations.

Judging by letters from local attorneys and prospective fiduciary customers submitted in support of the application, it would appear that there is some potential trust business to be had in the area. While the proposed trust officer has had only limited experience with fiduciary account administration, he is

Mr. H. G. McConnell - 2

said to be an able and versatile country banker with many years of experience in commercial banking. The proposed assistant trust officer's qualifications are also quite limited, but it is believed that these two individuals, with the advice and guidance of competent legal counsel, may be expected to furnish satisfactory administration for fiduciary appointments in the kinds and volume applicant is likely to obtain. In addition, although of lesser significance, the local competing bank has full trust authority, and the desire of applicant to attain competitive equality is understandable.

This case presents for consideration several factors bearing on applicant's desire for fiduciary authority which are not easily resolved. While there is some basis to support a decision to withhold the requested fiduciary authority, the condition of the bank, the quality of its management and ownership, the dearth of corporate fiduciary facilities in North Dakota, the indications of available fiduciary business, and the local competition for such business, combine, in the Board's judgment, to support a grant of the authority requested. The Board of Governors has, therefore, approved the application as evidenced by the enclosed letter which you are requested to forward to The Liberty National Bank of Dickinson. A copy of this letter is enclosed for your files.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosures-2

Item No. 11
3/14/57

S-1622

March 14, 1957

Dear Sir:

The Board recently has had occasion to compare the procedures of the several Reserve Banks in processing applications for trust powers submitted by national banks. While these procedures have been substantially uniform and generally satisfactory, the Reserve Banks are requested at this time to review their practices and policies relating to the processing of such applications, particularly with respect to applications submitted by small national banks.

Experience has shown that serious criticisms of trust administration occur most frequently with respect to smaller trust operations. It is in the smaller trust operation that neglect of sound fiduciary principles or inept administration is most often found, and where the possibilities of loss to the bank are out of proportion to the income to be derived from such activity. Consequently, applications by small national banks for trust powers should receive thorough investigation as to their merits.

In authorizing the Board to grant trust powers, Congress intended to enable qualified national banks to exercise such powers on a basis of substantial equality with competing State chartered institutions. In discharging its responsibility, the Board has recognized competitive inequities in individual situations, and also has sought to avoid a practice of granting trust powers only to large banks. However, while the possible effect of a local competitive situation is not overlooked in acting upon applications for trust powers by small national banks, the question whether the applicant bank will be able to provide creditable fiduciary service is a more important consideration.

The Board recognizes that the Reserve Banks are in a position to be well informed with respect to local conditions, competitive and other, in communities in their respective districts, and the Board relies to a substantial extent on the recommendations and supporting information submitted by the Reserve Banks. The Board also is aware that officers and examiners of the Reserve Banks often are personally acquainted with management situations existing in the applicant banks. Nevertheless,

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it is desirable that each application for trust authority be considered most carefully by the Reserve Bank and be the subject of a field investigation including an interview with the bank's directors and executive officers, at which the responsibilities and potential liabilities inherent in fiduciary operations are fully explored, together with the requirements for sound and creditable administration of fiduciary appointments.

In formulating recommendations on trust power applications, it should be borne in mind that limited managerial ability and inadequate facilities in varying degrees are among the problems facing small banks desiring to enter this field. These problems have a direct bearing on the appropriateness of granting trust powers, and where the Reserve Bank makes a favorable recommendation, the supporting information should indicate that the persons selected to handle trust activities possess sufficient ability and experience to enable them, with competent legal counsel, to furnish satisfactory administration of fiduciary appointments of the kinds and in the volume that the bank is likely to obtain.

The Federal Reserve Banks should continue to make every effort to discourage the formal filing of an application for one or more trust powers by a national bank that, in their judgment, after due consideration of the applicability of the factors enumerated in section 2 of Regulation F, is not sufficiently well qualified to act in the fiduciary capacities requested, regardless of local competitive considerations which might otherwise be influential. You were informed in the Board's letter of January 31, 1957, (S-1618), of the decision to consider applications for specific fiduciary powers not enumerated in section 11(k) of the Federal Reserve Act. It is believed that this action will permit the Reserve Banks to be more selective in recommending the scope of fiduciary authority appropriate in individual cases.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 12

3/14/57

March 14, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated December 7, 1956, enclosing photostatic copies of an application to organize a national bank at Deer Park, Texas, and requesting a recommendation as to whether or not the application should be approved.

The report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas discloses that the proponents plan to provide a capital structure of \$350,000 instead of \$275,000 as outlined in the application, and this capital structure would be adequate based upon the anticipated volume of business to be acquired. The information submitted indicates rather favorable findings with respect to the future earnings prospects and management of the proposed bank, as well as the convenience and needs of the community to be served. We are advised that another group has filed an application for a State charter and deposit insurance for a bank at or near the same location. According to our information, the need for two commercial banking offices at this location is not apparent. After considering the information available, the Board of Governors recommends approval of the application to organize a national bank at Deer Park, Texas, provided the establishment of a State chartered bank at this time in the same area is not approved.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.